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**Tax Expenditures and Tax Preferences in the
Personal Income Tax System of
Selected OECD Countries:
A Suggested Classification**

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ABSTRACT

The concept of tax expenditures was developed in the 1960s primarily for the purposes of clarifying the spending and taxing roles of government, and of determining the extent to which the tax system was used to deliver spending programs. Although there is no official definition of tax expenditures, these special tax provisions are generally defined as deviations from a benchmark tax system. In the case of the personal income tax, the benchmark is generally represented by a comprehensive income base combined with existing tax rates and income brackets.

In this paper we do not get involved in the controversy over the usefulness of the concept of tax expenditures, the difficulties in selecting a benchmark tax system or the methodological issues involved in their measurement. The task we have chosen is simpler. We will use the list of tax expenditures contained in the official publications of five OECD countries and classify them in a manner that we hope will facilitate policy analysis. These five countries – Canada, the United States, the United Kingdom, France and Australia – are located in three different continents and represent different approaches to personal income taxation. We will show the implications of applying our classification to the tax system of these countries in terms of the scope of tax expenditures, the role of tax preferences and the relative importance of social and economic objectives.

RÉSUMÉ

Le concept des «dépenses fiscales» a été mis au point au cours des années 60, principalement pour préciser les rôles de l'État au chapitre des dépenses et de l'imposition et pour déterminer dans quelle mesure le régime fiscal servait à exécuter des programmes de dépenses. Bien qu'il n'existe aucune définition officielle de l'expression «dépenses fiscales», les dispositions fiscales spéciales sont généralement définies comme des écarts

par rapport au régime fiscal de référence. Dans le cas de l'impôt sur le revenu des particuliers, le point de référence est généralement représenté par une assiette fiscale fondée sur le revenu exhaustif.

Dans le présent document, nous ne nous lancerons pas dans le débat sur l'utilité du concept des dépenses fiscales, sur la difficulté de choisir un régime fiscal de référence ou sur les problèmes méthodologiques que pose l'évaluation de ces dépenses. La tâche que nous avons choisie est plus simple. Nous utiliserons la liste des dépenses fiscales contenue dans les publications officielles de cinq pays de l'OCDE et les classerons d'une manière qui, l'espérons-nous, facilitera l'analyse de la politique. Ces cinq pays, c'est-à-dire le Canada, les États-Unis, le Royaume-Uni, la France et l'Australie, sont situés sur trois continents différents et envisagent l'impôt sur le revenu des particuliers de façon différente. Nous indiquerons les conséquences d'appliquer notre classification au régime fiscal de ces pays au chapitre de la portée des dépenses fiscales, du rôle des avantages fiscaux et de l'importance relative des objectifs socio-économiques.

I. INTRODUCTION

The concept of tax expenditures was developed in the 1960s. West Germany first published a list of "tax aids" in 1967 and the United States followed with the publication of a "tax expenditure budget" in 1968. A number of countries began publishing lists of tax expenditures in the late 1970s (e.g., Canada and the United Kingdom) but most of other major countries started reporting tax expenditures in the 1980s.

The concept of tax expenditures was developed primarily for the purpose of clarifying the spending and taxing roles of government. One can think of the government budget as representing a "sources and uses" statement. On the sources side are recorded the revenues by type of tax or fee. On the uses side are recorded the expenditures by category, function or other useful classification. If the tax system is designed exclusively for the purpose of raising revenue and does not deliver any programs that can be provided through direct expenditures, the budget provides a clear division of decision-making areas. The sources side involves exclusively tax policy issues, while the uses side raises issues of public spending only. However, this clear subdivision is blurred when the tax system is given the additional task of delivering social and economic policy programs. This blurring of the boundaries affects the recording of the revenue and expenditure sides of the budget, and complicates the analysis of spending and taxing policies.

The concept of tax expenditures does not lend itself to uncontroversial definitions or a simple measurement of its magnitude. For example, Surrey (1973), an early proponent of a tax expenditure budget, identified that concept with the provisions of the personal income tax containing special exemptions, exclusions, deductions, and other tax benefits that were not required for the normal tax structure itself. Bird (1969) referred to tax expenditures as special provisions that reduce the base for certain kinds of income, consumption, or wealth. According to Kesselman (1988), they are any form of tax incentive or relief granted via the tax system rather than via government expenditures. As noted in the annual report of the Department of Finance of Canada (1996, p.8):

Tax expenditures represent an alternative to direct spending for achieving government policy objectives. They are defined as deviations from a benchmark tax system. Typically, they take the form of income exclusions or deductions, tax credits or deferrals that are available to select groups of individuals or businesses.

In this paper we do not get involved in the controversy over the usefulness of the concept of tax expenditures, the difficulties in selecting a benchmark tax system, or the methodological issues involved in their measurement. The task we have chosen is much simpler. We will use the list of personal income tax expenditures contained in official publications of five OECD countries and classify them in a manner that we hope will

facilitate policy analysis. These five countries - Canada, the United States, the United Kingdom, France and Australia - are located in three different continents and represent different approaches to personal income taxation. In section II of the paper, we discuss the conceptual framework used in our classification scheme. The classification of tax expenditures is presented in section III. Section IV contains some concluding remarks.

II. A CLASSIFICATION FRAMEWORK

The classification of tax expenditures is not clear-cut. Therefore, it is not surprising to find an abundance of suggestions – and different countries' official reporting procedures – on how to classify tax expenditures. Shoup (1975) suggests that a distinction should be made between the tax expenditures that are easily identifiable, and those that are more controversial. Break (1985) proposes a three-part classification: the tax expenditures which are not part of the structure of the tax and can be easily estimated, those that are not part of the tax structure but raise serious measurement issues, and those open to serious questions on conceptual grounds. Canada uses a similar approach. The Canadian list of what may be considered clear-cut tax expenditures is complemented by a list called memorandum items containing the items, which require a greater degree of judgement. Similarly, the United Kingdom uses a division between tax expenditures and “structural reliefs”, the latter considered part of the benchmark system, although presented in the official tax expenditure accounts.

Although both Australia and France have adopted a formal definition of the benchmark tax system, their reported list of tax expenditures is quite comprehensive and provides useful information for international comparison purposes.

The United States reports tax expenditures relative to two distinct benchmark structures: the "normal" benchmark, patterned on a practical variant of the concept of comprehensive income, and a "reference" benchmark, closer to the actual tax system under the tax law. Items treated as tax expenditures under the normal benchmark, but not under the baseline benchmark, are indicated by the designation "normal tax method" in the official report.

The U.S. approach in defining tax expenditures follows Fiekowsky (1980), which argues that tax expenditures should be defined strictly by determining whether they are an exception to an existing general rule in the tax law and whether the purpose of the exception can be achieved through an expenditure program at similar costs. "Exceptions" which do not pass both tests should be considered tax policy issues.

In our view, Fiekowsky's criteria provide a useful basis for a classification of tax expenditures. Let us consider, for example, the non-taxation of certain income-tested transfer payments provided to individuals in financial need. Their non-taxation represents a departure from the general rule under a comprehensive income tax base that all income sources should be taxed. However, the benefits of non-taxation could be easily delivered

by adjusting the value of these transfers for their taxability and then making the whole amount subject to the tax. Because these transfers are targeted at low-income individuals, the adjustment is uniform for all recipients because it involves only one tax rate. Since the benefits of the non-taxation of such transfers can be easily delivered through the spending side, we call this income exclusion in the tax system a *pure tax expenditure*.

Let us consider, as an alternative, the preferential tax treatment of capital gains. In this case, the benefits cannot be provided as easily and at similar cost through a spending program. First, the program could not be delivered as a universal or selective demogrant. Although potentially every taxpayer can receive capital gains, not everyone does and the recipients of capital gains change from year to year, as do the sources of those gains. Moreover, since it is effectively an exclusion from comprehensive income, the tax benefit from the preferential treatment of capital gains differs among taxpayers depending on the marginal tax rates applicable to that exclusion for each taxpayer. Even if the objective of the program could be delivered through the spending side, the value of the benefit for each taxpayer would be dependent on the tax rate structure. For the above reasons, the preferential tax treatment of capital gains would be classified as a *tax preference*.

The criteria used in this paper to distinguish between pure tax expenditures and tax preferences are explicitly identified in Table 1. As discussed below, the differentiation may help clarify tax base issues.

TABLE 1

I. CRITERIA FOR SELECTING TAX EXPENDITURES AND TAX PREFERENCES IN THE INCOME TAX SYSTEM

TAX EXPENDITURES

- The specific provision is an exception to a general rule in the *Income Tax Act*.
- The specific provision can be delivered as a separate spending program at similar costs.
- Eliminating the specific provision would not affect the net fiscal position of the government assuming its replacement by a direct spending program.

TAX PREFERENCES

- The specific provision is not an exception to a general rule in the *Income Tax Act*.
- The specific provision cannot be delivered as a separate spending program at similar costs.
- Eliminating the specific provision affects the net fiscal position of the government unless it is accompanied by revenue-neutral tax rate changes.

Removing a pure tax expenditure is a revenue-neutral exercise without any necessary adjustments to the rate structure, assuming the tax expenditure is replaced by a direct spending program. The increase in tax revenue from the expansion of the base is offset by the increase in spending. Only when the underlying benefit is eliminated entirely is there a change in the government's fiscal position. But this change involves an expenditure decision, not a tax policy decision. In the case of pure tax expenditures, the policy issue is not an expansion of the tax base with a corresponding adjustment to the rate structure, but is rather a program provision issue.

The elimination of a tax preference is not a revenue-neutral exercise. Since the special provision cannot be delivered effectively as a spending program, its elimination involves an expansion of the tax base and an increase in tax revenue. The policy issue then is whether the rate structure will be adjusted to eliminate this revenue gain and how. This adjustment is a tax policy issue.

III. A CLASSIFICATION OF TAX EXPENDITURES

In this section we present two classifications of the special provisions contained in the personal income tax system of five OECD countries. The first classification helps to highlight the major differences in the personal income tax base of the selected five countries. We divided these provisions into four main groups, according to their sources: exclusions (or partial inclusion) of some income sources, exemptions and equivalent, deductions and equivalent, and special items. Exclusions contain income sources which are either entered partially in total income or are taxed at preferential rates.¹ Examples of exclusions are the non-inclusion of social assistance benefits and various employer-provided benefits in the definition of total income. Items with preferential tax rates include all the provisions related to capital gains. Exemptions and equivalent are allowances to selected individuals or families which are unrelated in amount to any expense incurred by the taxpayer. Examples are the spousal credit in Canada and Australia and the age-related allowances in all five countries except Australia. Deductions

and equivalent are subtractions from the income base which are related, directly or indirectly, to expenses incurred by the taxpayer. Examples are expenses to earn business income, such as certain accelerated tax depreciation provisions, and the tax relief for child care expenses considered as expenses incurred to earn employment income. Finally, special items refer to selected credits such as investment credits in Canada and the U.S. and tax reliefs for the double taxation of dividends in Canada, the U.K. and France.

This first classification serves the purpose of separating, in a second step, tax preferences from pure tax expenditures. This classification provides some indication on the extent to which the personal income tax system is used as a vehicle for delivering expenditure programs or as an instrument for granting preferential tax treatment to selected groups or activities.

III.A. SPECIAL TAX PROVISIONS BY MAJOR CATEGORY

Before presenting the results of our classification, it may be useful to identify the major caveats of this classification exercise, the first one being that our classification is not watertight and requires some judgement calls.

The second refers to the risks of adding up the estimated tax losses from each tax expenditure in order to determine their total cost by major category. There are complex interactions among the various tax provisions so that the total impact of eliminating all the special tax provisions – or even a subgroup of them – will be quite different from the

sum of the tax revenue foregone by eliminating each component separately. In the context of the classification proposed in this paper, we would expect these interactions to be more prevalent, for a given country, within individual categories rather than across categories.

Finally, using estimates of tax expenditures for a number of countries raises additional issues related to the comparability of methods of calculating the costs of tax expenditures.

Comparisons of tax expenditures can be misleading not only when definitions of benchmarks differ, but also when methods of calculating specific items differ markedly.

The problem of comparability can be more severe in the context of countries that make quite different use of tax credits relative to exclusions, exemptions or deductions.

However, differences in ratios among countries will still provide useful information, especially if the interactions among the various provisions are similar in each country.

Conscious of the caveats outlined above, we illustrate the usefulness of our classification proposals by applying them to the personal income tax systems of five OECD countries, namely, Canada, Australia, France, United Kingdom and the United States.

The relative shares of the four major groups of special provisions by source are shown in Table 2, and the detailed amounts are contained in Appendix TableA-1.

TABLE 2

**SPECIAL TAX PROVISIONS IN THE PERSONAL INCOME
TAX SYSTEM BY MAJOR SOURCES, 1993¹**

	Canada (%)	U.S. (%)	U.K. (%)	Australia (%)	France (%)
EXCLUSIONS (Total or Partial)					
<i>Government transfers</i>	2.82	1.53	4.92	28.04	12.76
<i>Insurance-type programs</i>	5.27	15.91	<1	-	-
<i>Private earnings</i>	46.00	36.40	37.10	5.45	32.50
TOTAL EXCLUSIONS	54.09	53.84	42.22	33.49	45.26
EXEMPTIONS AND EQUIVALENT					
<i>Taxpayers with dependent spouse¹</i>	3.17	-	15.74	10.21	28.02
<i>Taxpayers with dependants other than spouse²</i>	15.09	6.12	0.84	1.71	7.88
<i>Elderly</i>	4.41	0.45	2.34	-	0.96
<i>Taxpayers with disability</i>	0.71	-	-	-	0.73
<i>Other compensations³</i>	0.50	-	-	1.31	3.68
TOTAL EXEMPTIONS	23.89	6.57	18.92	13.23	41.28
DEDUCTIONS AND EQUIVALENT					
<i>Expenses to earn employment income</i>	3.77	0.76	-	-	1.64
<i>Expenses to earn business income</i>	0.65	3.63	-	-	4.26
<i>Expenses to earn investment income</i>	0.57	10.78	-	-	-
<i>Other expenses or contributions⁴</i>	15.04	23.03	31.15	51.08	4.98
TOTAL DEDUCTIONS	20.02	38.20	31.15	51.08	10.87

TABLE 2 (continued)

	Canada (%)	U.S. (%)	U.K. (%)	Australia (%)	France (%)
SPECIAL ITEMS					
<i>Earned income refundable credit</i>	-	1.08	-	-	-
<i>Exemption from spécial levy ⁵</i>	-	-	-	2.20	-
<i>Investment credit</i>	<1	<1	-	-	-
<i>Double taxation relief</i>	1.67	-	7.70	-	2.59
TOTAL SPECIAL ITEMS	2.00	1.40	7.70	2.20	2.59
TOTAL	100.00	100.00	100.00	100.00	100.00

† The percentage reported here are based on tax expenditures for which cost estimates were available and exceed: CAN\$20 million for Canada, US\$200 million for the U.S., £50 million for the U.K., A\$50 million for Australia and FFfr500 million for France. All estimates are in terms of revenue forgone, which measures the amount by which government revenues are reduced by each particular provision. See Table A1 in the appendix for more details.

¹ In the U.S., the tax system does not provide assistance to taxpayers with dependent spouse or to married couples in general.

² Includes the Child Tax Benefit provided in Canada. In the U.S., exemptions for dependants are considered as part of the benchmark and, therefore, do not give rise to a tax expenditure. For comparison purposes, we provide an estimate based on data provided by the U.S. Treasury on the number of exemptions for dependants claimed by taxpayers in 1993 and their average tax rate.

³ Includes allowance to taxpayers resident in remote locations of Canada and Australia, and relief for low-income taxpayers in France.

⁴ Includes items such as relief for charitable donations, medical expenses and education and tuition fees, and relief for contributions to certain retirement saving plans, pension funds or superannuation funds. For the U.S., the estimation for the latter item is based on the value of the deduction for contributions to saving plans *net* of the exclusion of the investment income from the plans. All countries reporting tax expenditures for funded pension plans do so on a cash-flow basis, i.e. they measure the impact on revenues of the tax measure in each of the year under consideration and do not take account of the offsetting effect of future revenues.

⁵ Refers to the exemption from the Medicare levy in Australia on income below a certain threshold and income above a certain ceiling.

The application of our classification proposals to data published by the OECD sheds

some light on the differences in the special provisions of the personal income tax system of the five countries considered. Exclusions, for example, appear to be most prevalent in

Canada and the U.S.. In all countries (except Australia), most of the exclusions relate to the less than full inclusions, or preferential tax treatment of private earnings – primarily tax assistance to retirement savings and housing.

Of the five countries in our sample, France makes the largest use of exemptions, which is linked to its allowance to taxpayers with dependent spouse and children. In France, the income tax takes account of the number of persons living off the income of the head of the family. Under the family coefficient system, the income brackets to which the tax rates are applied are determined by dividing taxable income by the number of allowances available to an individual. A tax expenditure is reported for the “coefficient familial”, representing the additional tax which would be paid in the absence of allowances reflecting family size.

By contrast, the U.S. tax system does not provide direct tax assistance to taxpayers with a spouse other than through the filing status system. The benchmark tax unit is the filing unit, which may include a single individual, a married couple – filing separately or jointly – and head of household. Different filing units face different tax schedule and, in this context, marriage affects a couple's joint tax liability.²

Exemptions for dependent children are also considered as part of the U.S. benchmark system, and therefore do not give rise to a tax expenditure. However, for the purposes of

this paper, our tax expenditure estimates include an approximation of the tax revenue losses due to exemptions for dependants.

In the area of the relative use of deductions and equivalent, the leader is Australia, followed by the U.S. and the U.K. In those three countries, the main contributors to the large role of deductions are those for contributions to retirement saving plans, pension and superannuation funds which, in those countries, are more substantial than in Canada and France.

Finally, our results suggest that special items represent a small share of tax expenditures in all countries, with the possible exception of the U.K. where they amount to about 8 per cent of the total.

III.B. SEPARATING PURE TAX EXPENDITURES FROM TAX PREFERENCES - CONCEPTS

Before discussing the results of the classification of special tax provisions into pure tax expenditures and tax preferences, it may be useful to identify the major issues involved in our classification. This may serve as a useful guide for policy analysis of potential changes in the tax base.

III.B.1 EXCLUSIONS

Government Transfers

This subgroup involves the non-taxation of government transfer payments and special payments such as disability allowances for veterans. The basic structure of the tax system would not be affected if these payments were made taxable and their gross amount increased to provide the same after-tax value. Since these transfers are often targeted to low-income taxpayers, the adjustment would generally involve a uniform tax rate. It would not affect the budget balance because it would raise revenues and expenditures by the same amount. This change does not represent a true expansion of the tax base because the maintenance of an unchanged deficit position does not require a rate structure adjustment. A rate reduction can occur only if the after-tax value of the transfer is reduced. But this is an expenditure decision, not a tax policy measure. For the above reasons, we identify the items in this subgroup as pure tax expenditures.

Insurance-Type Programs

Insurance-type programs involve the payment of an insurance premium for the entitlement to benefits under certain conditions. A consistent tax treatment of contributions and benefits can be achieved in two ways: either making contributions deductible and benefits taxable, or contributions non-deductible and benefits tax-free. Either approach can be considered to be part of the benchmark tax system. Therefore, its

components should not be included in the list of tax expenditures because they are neither pure tax expenditures nor tax preferences. In Canada, an approximation of the contribution-deductibility and benefit-taxation approach is used in the case of the Employment Insurance program and the Canada/Québec Pension Plan. Employers can deduct their contributions in calculating taxable income, but employees receive a non-refundable tax credit at the lowest marginal tax rate. As a result, some employees pay a higher tax rate on their benefits than the credit they receive on their contributions. This difference – which is not included in the list of tax expenditures – should be treated as a negative tax expenditure.

In Canada, the U.S. and the U.K., a consistent treatment of contributions and benefits is not applied to workers' compensation benefits and employer-paid premiums to health care and life insurance plans. In the case of both programs, employer contributions are deductible, but the associated benefits are non-taxable. Based on our criterion for classifying tax expenditures, these deviations from a consistent tax treatment should be treated as tax preferences.

Private Earnings

The third group includes items which involve preferential treatment of private income. All these items share the characteristics of the preferential tax treatment of capital gains used earlier as an example of a tax preference: there are no spending programs associated

with these items which can be altered if the favourable tax treatment is eliminated and they do not lend themselves easily to direct delivery as spending programs. Their elimination does not involve a related expenditure decision to maintain existing benefit levels. Therefore, in our classification scheme, these are generally treated as tax preferences. However, the treatment of some items in this group requires further explanation.

Some interesting issues are raised by the tax treatment of housing. The purchase of a house represents a choice in the use of current or future savings. By this definition, the taxation of a homeowner's residence contains a tax preference only to the extent that it deviates from the taxation of other forms of savings. Let us assume that the alternative saving option is the purchase of a government bond. Under the benchmark tax system, the principal amount is not taxed since it is acquired from taxable funds, but the interest is taxed. For the housing investment, the interest is replaced by the imputed rent net of expenses, including interest costs. This amount is not taxed directly under the income tax, but is taxed indirectly under national, state-provincial or local real property taxes. These taxes are based on the assessed value of the property, which can be treated as a proxy for the capitalized value of the flow of imputed rent.

The list of personal income tax expenditures does not take into account the interaction of the personal income tax with other taxes. When the personal income tax system is

considered in isolation, the non-taxation of imputed rent should be treated as a tax expenditure. However, if we recognize that in the benchmark tax system, expenses related to earning investment income – including interest expenses for bonds purchased on margin – are tax deductible, the non-deductibility of mortgage interest should be treated as a negative tax preference.

In Canada and Australia, neither the non-taxation of imputed rent nor the non-deductibility of mortgage interest is included in the official lists of tax expenditures, suggesting the implicit assumption that the two items cancel each other. In the U.S., U.K. and France, where mortgage interest is tax deductible, its reporting as a tax expenditure could be considered as a proxy for the value of the non-taxation of the imputed rent of homeowners.³

Finally, capital gains on the sale of bonds are taxable; consistent treatment of different savings instruments would require the taxation of capital gains on owner-occupied housing. Its non-taxation should be treated as a tax preference.

The tax treatment of tax-assisted retirement saving plans, pension funds or superannuation funds highlights the importance of the time-period for the estimation of the value of tax preferences. Generally, this tax treatment includes three elements: a tax deduction for contributions (discussed in the next section), the non-taxation of investment income, and the taxation of both principal and investment income upon withdrawal. As in

the case of housing, the benchmark is the tax treatment of non-sheltered savings. The earnings on the latter are taxed; therefore, the non-taxation of earnings on tax-assisted saving plans is a tax preference. Eventually, these non-taxed earnings are captured by the tax system as they are turned into income either through pensions or personal withdrawals. Therefore, the value of this tax preference is less under a mature system than is currently recorded.

III.B.2 EXEMPTIONS AND EQUIVALENT

These items are in the form of allowances for selected taxpayers, mainly based on demographic characteristics. They are in substance equivalent to transfer payments and are delivered as tax credits – which reduce the amount of tax payable – or as tax allowances – which reduce the computed taxable income.

The tax relief for taxpayers with dependants is part of a package of allowances for family status, which has traditionally been justified by the notion that ability to pay – the principle often used in support of progressive income taxes – does not start at the first dollar of income earned, but after a minimum level of income needed for basic personal sustenance. A similar principle was indirectly applied to consumption taxes by exempting basic necessities such as food, clothing, housing and shelter costs.

The Canadian tax system presently targets certain benefits to low income taxpayers. On the income tax side, the non-refundable credit for dependent children is incorporated into

an enriched income-tested refundable Child Tax Benefit. On the consumption tax side, the exemption for basic necessities (except for basic groceries) has been eliminated by the expansion of the base by federal government and certain provinces under the harmonized Goods and Services Tax. The exemption for basic necessities has been replaced by a refundable tax credit targeted at low and middle-income individuals. The deduction for a spouse has been transformed into a non-refundable credit, but it still applies regardless of the income of the supporting spouse or the number of children.

In our view, the spousal tax relief provided in all five countries except the U.S. can be delivered outside the tax system and therefore should be classified as a pure tax expenditure.

The age and disability tax assistance are special reliefs equivalent to transfers for a selected group of taxpayers. These are special grants that could be delivered through a spending program. As such, they should be classified as a pure tax expenditure.

III.B.3 DEDUCTIONS AND EQUIVALENT

Deductions represent recognition in the tax system of the special circumstances of different taxpayers. Because the rate structure is progressive, the resulting reduction in tax depends on a taxpayer's marginal rate, and is greater for those with higher income. As such, these items could not be delivered through a spending program, and therefore should be classified as tax preferences.

The major deductions can be subdivided as expenses incurred to earn employment income, business income and investment income. An additional group contains programs for tax assistance to retirement savings and tax assistance for charitable contributions, medical and education expenses.

Expenses to Earn Employment Income

The deduction for child care expenses is an example of the first group. As with other deductions, the deduction for child care expenses reflects the fact that taxpayers who incur such expenses have lower discretionary income and capacity to pay taxes than other taxpayers with the same income but without such expenses. The effect of the deduction is to leave untaxed the portion of income used to pay these expenses.

The child care expense deduction intends to recognize the special circumstances of working parents. When both parents work outside the home, child care expenses are a necessary cost of earning income that is subject to tax. Because of child care expenses, working parents have a reduced ability to pay tax compared to taxpayers in similar economic circumstances who do not have to incur child care costs. As such, the deduction is a tax preference intended to provide neutrality in the tax treatment of different types of families.

The deductions for expenses to earn employment income are treated here as tax preferences, although they could be considered as part of a benchmark tax system that incorporates elements of horizontal equity.

Expenses to Earn Business Income

In the case of expenses incurred to earn business income, the benchmark tax system recognizes to some extent the deductibility of such expenses against business income.

The deductibility of expenses above the economic cost, such as accelerated tax depreciation, or the deductibility of expenses against non-business income are considered tax preferences. An example of this is the deduction of farm losses against non-farm income for part-time farmers in Canada.

Expenses to Earn Investment Income

Expenses to earn investment income are deductible under a benchmark tax system.

However, certain restrictions generally apply. Therefore, a tax preference arises when certain expenses are exempt from these restrictions. For example, in Canada, a limited partner can deduct investment losses against non-investment income (up to the amount of investment at risk) whereas a shareholder is normally not able to deduct corporate losses against personal income. Another example is the exemption of mutual fund expenses from the restriction that costs incurred in managing personal portfolios are deductible

only to the extent that they exceed 2 per cent of an individual's gross income, as is the case for other miscellaneous itemized deductions in the U.S..

Other Expenses or Contributions

A third category includes tax assistance given for expenses incurred by taxpayers. The tax credits for education and tuition fees are based on expenses related to post-secondary education. These are effectively grants offered to post-secondary students (or their parents, grandparents or supporting spouse) based on the amount of tuition they pay and whether they are full time or part-time students. These grants could be delivered through direct payments; therefore, they should be classified as pure tax expenditures. Tax assistance for medical expenses and charitable donations could also be delivered as direct expenditure programs and can also be treated as pure tax expenditures.

Although we have classified the non-refundable tax credits as pure tax expenditures, the fact that they are non-refundable establishes a relationship with the tax structure which makes them less than "pure". These credits provide a benefit only to the extent that there is some tax liability to offset. If they were delivered directly, they would likely be given to everyone, thus increasing the total spending beyond the value of the credits.

In Canada, the current tax treatment of alimony and maintenance payments follows the basic principle that income should be taxed in the hands of the individual who has discretion over how it is spent. However, since child support is intended to be spent on

children, there is some question as to whether it should be considered as income for the custodial parent or as a personal expense of the payer. Because custodial parents are usually taxed at a lower rate than payers are, the current deduction/inclusion system creates a tax benefit which, if appropriately factored into the level of child support awarded, makes more money available for custodial parents and their children. A transfer of income between former spouses produces this advantage, where the recipient is in a lower tax bracket than the payer. The advantage is often referred to as "income-splitting". Under these circumstances, the tax paid on the amount of child support is lower under the current tax provisions than if the support payments were taxed in the hands of the payer.⁴

The deductibility of contributions to certain retirement saving plans, such as Canada's Registered Retirement Saving Plans (RRSP) and Registered Pension Plans (RPP) essentially provides an interest-free loan in exchange for the taxation of the funds (principal and earnings) upon withdrawal. As mentioned before, since the benchmark can be defined as the treatment provided to non-sheltered savings, these provisions clearly constitute a tax preference.

III.B.4 SPECIAL ITEMS

The last category includes special items, such as the tax relief for the double taxation of dividends under both personal and corporate income tax. However, under a

comprehensive income tax, individuals and corporations are treated as separate taxing units. Therefore, there is no attempt to integrate the personal and corporate income tax systems. Under this assumption, the item is a tax preference.

III.C. SEPARATING PURE TAX EXPENDITURES FROM TAX PREFERENCES - ESTIMATES

Our classification of the special tax provisions into “pure tax expenditures” and “tax preferences” is presented below in Table 3. (Details are found in Table A-2 of the Appendix.) Within these two categories, our classification identifies the major group (e.g., family, elderly) or activity (e.g., health, saving) benefiting from the particular tax provisions. Because of their nature as spending programs delivered through the tax system, pure tax expenditures serve almost exclusively social policy functions as opposed to economic policy functions. The opposite tends to be true in the case of tax preferences. Additional relevant information can therefore be obtained by distinguishing, within each major category, between measures aimed at economic policy objectives and measures aimed at social policy objectives. For economic objectives, efficiency effects would typically dominate distributional effects. The opposite is typically true for social objectives.

It should be noted again that the ratios presented here should be interpreted with care, as they result from adding up the estimated tax losses from each tax expenditure in order to determine their total cost by major category. We understand that there are important

limitations to proceeding in this manner, but choose to do so nonetheless to illustrate the implications of our classification proposals for the personal income tax systems of the five OECD countries considered.

TABLE 3
PURE TAX EXPENDITURES AND TAX PREFERENCES IN THE
PERSONAL INCOME TAX SYSTEM, 1993'

	Canada (%)	U.S. (%)	U.K. (%)	Australia (%)	France (%)
PURE TAX EXPENDITURES					
Social Policy Objectives					
<i>Family</i> ¹	18.85	5.97	18.59	11.92	35.90
<i>Elderly</i>	5.37	1.13	2.81	13.71	6.03
<i>Other</i> ²	6.20	5.63	4.29	18.99	11.45
Subtotal Social Objectives	30.42	12.73	25.69	44.61	53.39
Economic Policy Objectives					
<i>Cost of investment in human capital</i>	1.07	<1	-	-	1.05
<i>Other</i> ³	<1	-	-	-	-
Subtotal Economic Objectives	1.14	<1	-	-	1.05
SUBTOTAL PURE TAX EXPENDITURES	31.56	13.12	25.69	44.61	54.44
TAX PREFERENCES					
Social Policy Objectives					
<i>Health</i>	3.16	13.99	0.57	-	-
<i>Other compensations</i> ⁴	2.04	2.76	4.32	5.30	3.53
Subtotal Social Objectives	5.20	16.74	4.89	5.30	3.53

TABLE 3 (continued)

	Canada (%)	U.S. (%)	U.K. (%)	Australia (%)	France (%)
Economic Policy Objectives					
<i>Specific businesses</i>	4.95	1.70	-	-	1.27
<i>Investment/Saving</i>	45.56	29.29	42.42	50.09	24.96
<i>Housing</i>	7.20	26.50	17.75	-	10.40
<i>Cost of earning income</i>	3.86	2.91	1.54	-	2.81
<i>Other ⁵</i>	1.67	9.74	7.70	-	2.59
Subtotal Economic Objectives	63.24	70.14	69.42	50.09	42.03
SUBTOTAL TAX PREFERENCES	68.44	86.88	74.31	55.39	45.56
TOTAL	100.00	100.00	100.00	100.00	100.00

† The percentages reported here are based on tax expenditures for which cost estimates were available and exceed: CAN\$20 million for Canada, US\$200 million for the U.S., £50 million for the U.K., A\$50 million for Australia and FFfr500 million for France. All estimates are in terms of revenue forgone, which measures the amount by which government revenues are reduced by each particular provision. See Table A2 in the appendix for more details.

¹ Includes the Child Tax Benefit provided in Canada. In the U.S., exemptions for dependants are considered as part of the benchmark and, therefore, do not give rise to a tax expenditure. For comparison purposes, we provide an estimate based on data provided by the U.S. Treasury on the number of exemptions for dependants claimed by taxpayers in 1993 and their average tax rate.

² Includes items such as relief for charitable donations and medical expenses, assistance to taxpayers with disability, housing allowances and also certain allowances to families and the elderly.

³ Refers to income stabilization program for farmers.

⁴ Includes items such as the non-taxation of workers' compensation payments, payments on termination of employment, benefits paid to armed force personnel and accident victims, and relief for premiums for certain life insurance.

⁵ Includes the double taxation relief for dividends and the assistance to state and local governments in the U.S..

III.C.1 PURE TAX EXPENDITURES

The application of our classification proposals allow us to uncover the distribution of special provisions in the personal income tax between pure tax expenditures and tax preferences embodied in the OECD data. France and Australia, for example, seem to use

the personal income tax system heavily for delivering pure tax expenditures. Indeed, by our estimates, this category of special tax provisions accounts for about one half of total tax expenditures in these two countries. By contrast, the U.S. tax system assigns a much smaller role to pure tax expenditures, while the Canadian and the U.K. systems fall somewhere in between these two extremes.

As expected, because of their nature as spending programs delivered through the tax system, pure tax expenditures serve almost exclusively social policy functions. In France, for example, pure tax expenditures are largely targeted to families. Significant support for families is also found in the U.K. and Canada, while the U.S. does little for families through the personal income tax system.

The application of our classification proposals to the OECD data also suggests that Australia seems to provide strong support for seniors through the personal income tax. The U.S., on the other hand, appears to rely to a much limited degree on pure tax expenditures to fulfil this function.

III.C.2 TAX PREFERENCES

Based on our approach, it appears that tax preferences are the predominant form of tax expenditures in four of the five countries considered namely the U.S., the U.K., Canada and Australia. As expected, our results suggest that tax preferences are directed primarily at economic policy objectives. Only in the U.S. do a significant portion of tax preferences

serve social policy objectives, but this exception is due entirely to the absence of a national health care program and the tax deduction of employer-paid health care premiums.

The application of our classification to the OECD data also reveals that in Canada, Australia and the U.K., by far the largest component of tax preferences is directed at personal savings. By contrast, France and the U.S. seem to use the tax system more sparingly for the purpose of providing tax breaks to personal savings. Another noteworthy aspect concerns the provision of tax preferences to housing, where the U.S. emerges as the leader (followed by the U.K.) in using the personal income tax system for this purpose.

IV. CONCLUSION

In this paper, we have presented a classification of tax expenditures in the personal income tax system aimed at facilitating their analysis for tax policy purposes.⁵ The suggested classification is based on the distinction between tax expenditures and tax preferences. The former involves programs delivered through the tax system that could be relatively easily provided as direct expenditures. The latter contains measures which represent deviations from the tax structure. In identifying "pure tax expenditures", it is assumed that the benchmark personal income tax system is associated with a comprehensive income tax base combined with the existing tax rates and income

brackets. Different results would be obtained if the benchmark tax system were based on a consumption base.

To illustrate the consequences of our classification proposals, we applied them to the personal income tax systems of five major OECD countries. In this context, the application of our classification proposals suggests that France and Australia seem to use the special provisions of the personal income tax system almost equally for social and economic policy purposes, or, in other words, pure tax expenditures (which are mostly directed at social policy objectives) and tax preferences (which are mainly aimed at economic policy objectives) account for similar shares. In Canada, the U.S., and the U.K., our results suggest that tax preferences account for the overwhelming share of total tax expenditures. Finally, it appears that Canada and Australia (and to a lesser extent the U.K.) use tax preferences primarily to provide tax assistance to personal savings.

¹ A lower tax rate is equivalent in its effect on tax payable to the full taxation of less than the full amount of income.

² Various elements of the U.S. tax system – such as the rate schedule, the standard deduction and the earned income tax credit (EITC) – depend on an individual's family situation. Therefore, tax liabilities may decrease or increase with marriage. (The possibility of tax liabilities increasing with marriage is often referred as the "marriage tax".)

³ One could also consider that only expenses to earn business income are deductible under the benchmark tax system. In this case, the deductibility of carrying charges to earn investment income and mortgage interest would be considered tax preferences.

⁴ As of May 1, 1997, child support paid pursuant to an agreement made after that day will not be deductible to the payer nor included in the income of the recipient. The child support currently provided through the deduction/inclusion system will then be delivered outside the tax system and, therefore, the current system should be classified as a pure tax expenditure.

⁵ In fact, we have presented *two* classifications, the first one being the classification of special tax provisions by major category. However, this classification mainly served the purpose of separating tax preferences from pure tax expenditures.

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TABLE A1
SPECIAL TAX PROVISIONS IN THE PERSONAL INCOME
TAX SYSTEM BY MAJOR SOURCES, 1993

	Canada Smillion	U.S. Smillion	U.K. £million	Australia Smillion	France FFrmillion
EXCLUSIONS (Total or Partial)					
<i>Government Transfers</i>					
Pensions, benefits and allowances to veterans	140	1,880	140	1,524	1,620
Transfer payments to seniors	225	-	-	-	-
Transfers payments to taxpayers with dependant children	-	-	600	-	-
Transfers payments to taxpayers with disability	-	-	630	-	-
Other pensions benefits and allowances	-	415	-	1,530	12,810
Social assistance payments	705	500	-	-	2,000
Attendance allowance	-	-	100	-	-
Allowances to accident victims	-	-	-	-	2,850
Housing allowance	-	235	-	-	2630
Family and disability allowances	-	-	-	-	8,600
Benefits and allowances to armed force personnel	-	2,115	-	64	-
<i>Subtotal</i>	<i>1,070</i>	<i>5,145</i>	<i>1,470</i>	<i>3,118</i>	<i>30,510</i>
<i>Insurance-Type Programs</i>					
Income stabilization program for farmers	26	-	-	-	-
Employer-paid premiums for life insurance	165	2,620	-	-	-
Worker's compensation payments	610	3,815	60	-	-
Employer-paid insurance premiums for private health/welfare plans	1,200	46,895	-	-	-
<i>Subtotal</i>	<i>2,001</i>	<i>53,330</i>	<i>60</i>	<i>-</i>	<i>-</i>

TABLE A1 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
<i>Private Earnings</i>					
Capital gains at death	-	25,340	400	-	-
Capital gains on farm properties	405	-	-	-	-
Capital gains on small business shares	1,170	-	-	-	-
Capital gains on principal residence	2,735	17,890	1,000	-	-
Other capital gains	1,185	5,510	1,590	-	13,800
Profits from farming	-	-	-	-	3,030
Income of charities	-	-	650	81	-
Imputed rent of homeowner ¹	-	48,705	4,300	-	9,240
Scholarship and fellowship income	-	790	-	-	-
Payments on termination of employment	-	-	1,000	525	-
Employer-provided benefits	-	3,115	400	-	-
Employment income earned abroad	33	510	60	-	-
Government securities for non-resident	-	-	225	-	-
Income from certain installment sales	-	610	-	-	-
Investment income from certain bonds and policies	-	19,560	35	-	18,700
Investment income from certain saving accounts ²	-	-	690	-	18,930
Investment income from certain retirement saving plans, pension funds or superannuation funds	11,935	-	-	-	-
Investment income under certain profit sharing schemes, share option schemes and business expansion schemes ³	-	-	725	-	-
Other dividend and interest income	-	-	-	-	14,000
<i>Subtotal</i>	<i>17,463</i>	<i>122,030</i>	<i>11,075</i>	<i>606</i>	<i>77,700</i>
<i>TOTAL EXCLUSIONS</i>	<i>20,534</i>	<i>180,505</i>	<i>12,605</i>	<i>3,724</i>	<i>108,210</i>

TABLE A1 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
EXEMPTIONS AND EQUIVALENT					
<i>Taxpayers with dependent spouse</i> ⁴	1,205	-	4,700	1,135	67,000
<i>Taxpayers with dependants other than spouse</i> ⁵	5,730	20,505	250	190	18,850
<i>Elderly</i>	1,675	1,510	700	-	2,300
<i>Taxpayers with disability</i>	270	-	-	-	1,750
<i>Other compensations</i> ⁶	190	-	-	146	8800
TOTAL EXEMPTIONS	9,070	22,015	5,650	1,471	98,700
DEDUCTIONS AND EQUIVALENT					
<i>Expenses to earn employment income</i>					
Moving expenses	66	-	-	-	-
Meals and entertainment expenses	105	-	-	-	-
Child care expenses	305	2,540	-	-	1,000
Union and professional dues	465	-	-	-	-
Other employment expenses	490	-	-	-	2,920
<i>Subtotal</i>	<i>1,431</i>	<i>2,540</i>	<i>-</i>	<i>-</i>	<i>3,920</i>
<i>Expenses to earn business income</i>					
Farm losses for part-time farmers	50	-	-	-	-
Accelerated tax depreciation	95	4,905	-	-	-
Allowable business investment losses	100	6070	-	-	-
Expensing of certain small investments	-	945	-	-	-
Excess of percentage over cost depletion	-	250	-	-	-
Expenses on housing	-	-	-	-	7,380
Other business expenses	-	-	-	-	2,800
<i>Subtotal</i>	<i>245</i>	<i>12,170</i>	<i>-</i>	<i>-</i>	<i>10,180</i>

TABLE A1 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
<i>Expenses to earn investment income</i>					
Limited partnership losses	215	-	-	-	-
Mutual funds expenses ⁷	-	525	-	-	-
State and local property taxes	-	35,610	-	-	-
<i>Subtotal</i>	<i>215</i>	<i>36,135</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Other expenses or contributions</i>					
Deduction for housing allowance	48	-	-	-	-
Deduction of alimony and maintenance payments	220	-	-	-	-
Contributions to certain retirement saving plans, pension funds or superannuation funds ⁸	3,835	58,395	9,000	5,570	-
Contributions to labour-sponsored venture capital corporations	58	-	-	-	-
Contributions to profit sharing schemes	-	-	-	-	2,500
Medical expenses	260	3,010	-	110	-
Charitable donations	880	15,130	-	-	1,300
Education and tuition fees	408	-	-	-	2,500
Medical and life insurance premiums	-	-	300	-	5,600
Casualty losses	-	695	-	-	-
<i>Subtotal</i>	<i>5,709</i>	<i>77,230</i>	<i>9,300</i>	<i>5,680</i>	<i>11,900</i>
TOTAL DEDUCTIONS	7,600	128,075	9,300	5,680	26,000
<i>Earned income refundable credit</i>	<i>-</i>	<i>3,605</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Exemption from special levy</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>245</i>	<i>-</i>
<i>Investment credit</i>	<i>125</i>	<i>1,080</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Double taxation relief</i>	<i>635</i>	<i>-</i>	<i>2,300</i>	<i>-</i>	<i>6,200</i>
TOTAL SPECIAL ITEMS	760	4,685	2,300	245	6,200
TOTAL	37,964	335,280	29,855	11,120	239,110

Source: OECD (1996), *Tax Expenditures: Recent Experiences*, Paris.

Notes to Table A1

¹ The tax expenditure estimate for the deductibility of mortgage interest is used as a proxy for the value of the tax expenditure arising from the non-taxation of the imputed rent of homeowners. In Canada and Australia, it is assumed that the *negative* tax expenditure arising from the *non-deductibility* of mortgage interest cancels the *positive* tax expenditure arising from the non-taxation of the imputed rent of homeowners.

² In France, this includes relief provided to individual retirement saving plans of low-income individuals.

³ This item for the U.K. also includes the exclusion of profit-related pay.

⁴ In the U.S., the tax system does not provide assistance to taxpayers with dependent spouse or to married couples in general.

⁵ Includes the Child Tax Benefit provided in Canada. In the U.S., exemptions for dependants are considered as part of the benchmark and, therefore, do not give rise to a tax expenditure. For comparison purposes, we provide an estimate based on data provided by the U.S. Treasury on the number of exemptions for dependants claimed by taxpayers in 1993 and on their average tax rate.

⁶ This item includes allowance to taxpayers resident in remote locations of Canada and Australia, and relief for low-income taxpayers in France.

⁷ This item refers to the exemption of mutual funds expenses from the 2 per cent floor for miscellaneous itemized deductions.

⁸ For the U.S., the estimation for this item is based on the value of the deduction for contributions to saving plans *net* of the exclusion of the investment income from the plans.

TABLE A2

**PURE TAX EXPENDITURES AND TAX PREFERENCES IN THE
PERSONAL INCOME TAX SYSTEM, 1993**

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
PURE TAX EXPENDITURES					
Social Policy Objectives					
<i>Family</i>					
Assistance to taxpayers with dependent spouse ¹	1,205	-	4,700	1,135	67,000
Assistance to taxpayers with dependants other than spouse ²	5,950	20,000	850	190	18,850
<i>Subtotal</i>	<i>7,155</i>	<i>20,000</i>	<i>5,550</i>	<i>1,325</i>	<i>85,850</i>
<i>Elderly</i>					
Non-taxation of transfer payments to seniors	225	-	-	-	-
Other assistance to seniors	1,675	1,510	700	-	11,600
Non-taxation of certain pensions, benefits and allowances to veterans	140	1,880	140	244	1,620
Non-taxation of other pensions, benefits and allowances	-	415	-	1,280	1,210
<i>Subtotal</i>	<i>2,040</i>	<i>3,805</i>	<i>840</i>	<i>1,524</i>	<i>14,430</i>
<i>Other</i>					
Relief for charitable donations	880	15,130	-	-	1,300
Relief for medical expenses	260	3,010	-	110	
Assistance to taxpayers with disability	270	-	630	-	1,750
Non-taxation of social assistance payments	705	500	-	-	2,000

TABLE A2 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
Non-taxation of income of charities, registered hospital, medical and health benefit funds	-	-	650	81	-
Relief for certain pensions and unemployment and sickness benefits	-	-	-	1,530	-
Assistance to elderly and to taxpayers with disability	-	-	-	-	2,300
Non-taxation of family and disability allowances	-	-	-	-	2 600
Other assistance ³	238	235	-	391	11,430
<i>Subtotal</i>	<i>2,353</i>	<i>18,875</i>	<i>1,280</i>	<i>2,112</i>	<i>27 380</i>
Subtotal Social Objectives	11,548	42,680	7,670	4,961	127,660
Economic Policy Objectives					
<i>Cost of investment in human capital</i>					
Assistance to students for education and tuition expenses	218	-	-	-	-
Assistance to parents, supporting spouse of grandparents of students	190	505	-	-	2,500
Non-taxation of scholarship and fellowship income	-	790	-	-	-
<i>Subtotal</i>	<i>408</i>	<i>1,295</i>	<i>-</i>	<i>-</i>	<i>2,500</i>
<i>Other</i>					
Income stabilization program for farmers	26	-	-	-	-
<i>Subtotal</i>	<i>26</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Subtotal Economic Objectives	434	1,295			2,500
SUBTOTAL TAX EXPENDITURES	11,982	43,975	7,670	4,961	130,160

TABLE A2 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
TAX PREFERENCES					
Social Policy Objectives					
<i>Health</i>					
Non-taxation of employer-paid insurance premiums for private health/welfare plans	1,200	46,895	-	-	-
Non-taxation of attendance allowance	-	-	100	-	-
Relief for certain private medical insurance premiums	-	-	70	-	-
<i>Subtotal</i>	<i>1,200</i>	<i>46,895</i>	<i>170</i>	<i>-</i>	<i>-</i>
<i>Other compensations</i>					
Relief for premium for certain life insurance	165	2,620	230	-	5,600
Non-taxation of worker's compensation payments	610	3,815	60	-	-
Non-taxation of benefits and allowances to armed force personnel	-	2,115	-	64	-
Relief for payments on termination of employment	-	-	1,000	-	-
Relief for payments for unused annual leave or long service leave	-	-	-	525	-
Non-taxation of allowances for accident victims	-	-	-	-	2,850
Relief for casualty losses	-	695	-	-	-
<i>Subtotal</i>	<i>775</i>	<i>9,245</i>	<i>1,290</i>	<i>589</i>	<i>8,450</i>
Subtotal Social Objectives	1,975	56,140	1,460	589	8,450
Economic Policy Objectives					
<i>Specific businesses</i>					
Accelerated tax depreciation	95	4,490	-	-	-

TABLE A2 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
Relief for small businesses	1,170	-	-	-	-
Relief for farm properties	405	-	-	-	3,030
Relief for certain small investments	-	945	-	-	-
Excess of percentage over cost depletion	-	250	-	-	-
Relief for certain business investment losses	100	-	-	-	-
Relief for amounts invested in labour-sponsored venture capital corporations	58	-	-	-	-
Relief for farm losses for part-time farmers	50	-	-	-	-
<i>Subtotal</i>	<i>1,878</i>	<i>5,685</i>	<i>-</i>	<i>-</i>	<i>3,030</i>
<i>Investment/Saving</i>					
Preferential tax treatment of superannuation contributions, fund income and benefits paid under various retirement saving plans ⁴	15,770	58,395	9,000	5,570	-
Preferential tax treatment of capital gains at death	-	25,340	400	-	-
Preferential tax treatment of capital gains (other than on residential property)	1,185	5,510	1,590	-	13,800
Preferential tax treatment of investment income from certain type of life, disability and accident policies	-	7,310	-	-	-
Relief for investment income from certain bonds and policies	-	1,130	-	-	18,700
Non-taxation of interest on certain savings account ⁵	-	-	540	-	10,680
Relief for profit-sharing and share options schemes	-	-	725	-	2,500
Relief for limited partnership losses	215	-	-	-	-

TABLE A2 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
Relief for certain personal equity plans	-	-	150	-	-
Non-taxation of premium bonds prizes	-	-	35	-	-
Other assistance to investment ⁶	125	525	225	-	14,000
<i>Subtotal</i>	<i>17,295</i>	<i>98,210</i>	<i>12,665</i>	<i>5,570</i>	<i>59,680</i>
<i>Housing</i>					
Non-taxation of imputed rent of homeowners ⁷	-	48,705	4,300	-	9,240
Relief for property tax on owner-occupied homes	-	13,055	-	-	-
Relief for certain capital gains on home sales	-	13,265	-	-	-
Non-taxation of certain capital gains on principal residences	2,735	4,625	1,000	-	-
Relief for rental housing	-	6,485	-	-	1,450
Relief for low-income housing investments	-	1,080	-	-	-
Non-taxation of interest on owner-occupied mortgage subsidy bonds	-	1,025	-	-	-
Non-taxation of interest on home ownership savings schemes	-	-	-	-	8,250
Relief for certain income from installment sales	-	610	-	-	-
Other assistance to housing	-	-	-	-	5,930
<i>Subtotal</i>	<i>2,735</i>	<i>88,850</i>	<i>5,300</i>	<i>-</i>	<i>24,870</i>
<i>Cost of earning income</i>					
Assistance to low-income earners	-	3,605	-	-	-
Relief for child care expenses	305	2,540	-	-	1,000

TABLE A2 (continued)

	Canada \$million	U.S. \$million	U.K. £million	Australia \$million	France FFmillion
Relief for employment income earned abroad	33	510	60	-	-
Non-taxation of reimbursed employee parking expenses	-	1,790	-	-	-
Non-taxation of employer-provided child care	-	620	-	-	-
Relief for union and professional dues	465	-	-	-	-
Non-taxation of employer-provided meals and lodging	-	490	-	-	-
Relief for employer-provided relocation packages	-	-	400	-	-
Relief for other employer-provided benefits	-	215	-	-	-
Relief for expenses of a business nature (e.g. meals and entertainment expenses)	105	-	-	-	2,800
Relief for moving expenses	66	-	-	-	-
Relief for other employment expenses	490	-	-	-	2,920
<i>Subtotal</i>	<i>1,464</i>	<i>9,770</i>	<i>460</i>	<i>-</i>	<i>6,720</i>
<i>Other</i>					
Double taxation relief for dividends	635	-	2,300	-	6,200
Assistance to state and local governments	-	32,650	-	-	-
<i>Subtotal</i>	<i>635</i>	<i>32,650</i>	<i>2,300</i>	<i>-</i>	<i>6,200</i>
<i>Subtotal Economic Objectives</i>	<i>24,007</i>	<i>235,165</i>	<i>20,725</i>	<i>5,570</i>	<i>100,500</i>
SUBTOTAL TAX PREFERENCES	25,982	291,305	22,185	6,159	108,950
TOTAL	37,964	335,280	29,855	11,120	239,110

Source: OECD (1996), *Tax Expenditures: Recent Experiences*, Paris.

Notes to Table A2

¹ In the U.S., the tax system does not provide assistance to taxpayers with dependent spouse or to married couples in general.

² Includes the Child Tax Benefit provided in Canada. In the U.S., exemptions for dependants are considered as part of the benchmark and, therefore, do not give rise to a tax expenditure. For comparison purposes, we provide an estimate based on data provided by the U.S. Treasury on the number of exemptions for dependants claimed by taxpayers in 1993 and their average tax rate.

³ This item includes housing allowances, allowance to taxpayers resident in remote locations of Canada and Australia, and relief for low-income taxpayers in France.

⁴ For the U.S., the estimation for this item is based on the value of the deduction for contributions to saving plans *net* of the exclusion of the investment income from the plans.

⁵ In France, this includes relief provided to individual retirement saving plans of low-income individuals.

⁶ This item includes investment tax credit, deduction of carrying charges incurred to earn investment income, allowances for certain dividend and interest income, and the alternative withholding tax on fixed-income investments in France.

⁷ The tax expenditure estimate for the deductibility of mortgage interest is used as a proxy for the value of the tax expenditure arising from the non-taxation of the imputed rent of homeowners. In Canada and Australia, it is assumed that the *negative* tax expenditure arising from the *non-deductibility* of mortgage interest cancels the *positive* tax expenditure arising from the non-taxation of the imputed rent of homeowners.